Welcome to the ITSA seminar on what’s happening in the world of tax stamps and secure track and trace – or rather what’s happening in the growing world of illicit trade and tax evasion and how tax stamp and secure track and trace programmes can fit into the basket of measures that are being used by more and more countries to combat illicit trade.

ITSA stands for International Tax Stamp Association (ITSA), which represents the industry responsible for providing independent excise tax stamp, product authentication and secure track and trace systems for tobacco and other products.

We’re here today because there’s a lot going on with regard to regulations, standards and programme developments around excise tax stamp and secure track and trace systems – and revenue and customs authorities and solution providers need to be aware of them.

The regulatory landscape for tobacco is heating up, with the WHO Framework Convention on Tobacco Control and its Protocol to Eliminate Illicit Trade in Tobacco Products obliging parties to implement, by 2023, a secure track and trace system and global information-sharing platform – and it will most likely be national revenue authorities that have to drive this system, possibly through the use of tax stamps.

55 countries plus the European Union have all ratified the Protocol, which means they will be obliged to implement an interoperable track and system and info-sharing platform. But there is currently a lot of uncertainty among the parties about how such systems work and how they should go about selecting and implementing the right system for their requirements. In addition there have been questions raised about the compatibility between the EU Tobacco Products Directive (which also calls for track and trace and security features and which was implemented this year across the EU) and the
WHO FCTC Protocol.

But this seminar is not just about tobacco, and neither is it just about international systems. National programmes for controlling illicit trade of all manner of products at risk – although essentially tobacco and alcohol products – are busy expanding into comprehensive solutions for excise tax collection, product authentication and secure track and trace – in a bid to gain a much better control over the rampant illicit trade.

But essentially this seminar is about interaction – and about hearing from you, the issuers and the regulators, about the concerns and best practices in your region and about what you need from us, the solution providers to make your job easier in the face of illicit trade and the need to comply with international frameworks.
Who You Are

- Authorities responsible for raising and collecting taxes
- Wider role in controlling illicit trade and consumption of ‘sinful’ products
- Providers of solutions to secure tax recovery and counter illicit trade
Excise taxes are becoming more popular

A report that first appeared in February 2018 in *EY Tax Insights for Business Leaders* (www.ey.com) – and covered in Tax Stamp News April-May 2018 claimed that excise taxes are becoming more popular with policymakers because they are easy to collect (commodities such as salt, tobacco and alcohol have been subject to excise taxes for centuries), as well as relatively recession-proof and able to discourage ‘sinful’ behaviour such as smoking.

The report said that policymakers are now experimenting to see if they can curb other bad habits like eating too much sugar. However, this doesn’t necessarily mean that a large number of sugary products will end up carrying paper-based tax stamps – although we may one day be seeing a good number of these products sporting some kind of visible, secure proof of tax paid, such as a direct tax mark.

These 3 elements are combined in this way because of the high interaction between them. However for the purpose of this presentation we will just concentrate on the product marking ‘leg’ which essentially means the tax stamp.

You all know what a tax stamp is but the message I want to emphasise here is that multi-level security tax stamps are ideal as tools for product authentication, as well as carriers of the unique identifying code required for track and trace at national level... and not forgetting their original purpose as tools for revenue collection.
Current Status

- Some implemented, some in process
- Some tax stamps only, some with traceability, some with production monitoring
- International regulations on horizon
- But uncertainty over what is needed, what actually works and how it works
- With different stakeholders recommending different things
Workshop 1 – technical aspects and definitions – tax stamps and secure track and trace
Workshop 2 - critical aspects of actually implementing a solution: developing a strategy and a roadmap, choosing a governance/procurement model,
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<td>Overview of current landscape and developments</td>
<td>Nicola Sutan – ITSA General Secretary</td>
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<td>Table discussions</td>
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About ITSA

• Formed 2015 by 10 founder members
• Voice of tax stamp industry
• Increasingly well-known by regulators and issuers
• Advocate tax stamps for secure track and trace
• Active role in ISO 22382 for tax stamps – published 2018

But first a bit of information about the International Tax Stamp Association.

Founded in November 2015, ITSA was formed as a voice for the tax stamp industry to advance the benefits and evolving role of tax stamp programmes in a growing industry that is becoming ever more complex.

In an era where tax stamps are more sophisticated with expanding roles in production authentication, supply chain control and enforcement, ITSA is becoming increasingly well-known to government regulators and tax issuing authorities at national and regional level and recognised as an authoritative voice for the tax stamp community.

From its original 10 founding members, ITSA has grown to an association of 23 leading providers of tax stamps and their associated components and features, advocating the use of tax stamps as carriers of unique identifiers for secure track and trace as required by international protocols and frameworks.

Another key priority for ITSA was to provide funding and take an active role (as a member of the British Standards Institution) in the development of a new ISO guidance standard 22382, for the content, security, issuance and examination of excise tax stamps, which was published in November 2018.
Today, ITSA is 23 members strong, with all members being leading providers of product and document authentication technologies, as well as track and trace and production monitoring systems. As far as tax stamps are concerned, our members provide the tax stamps themselves, their security features, their unique identifiers, the machinery used to produce them, the systems used to manage them, the devices used to verify and authenticate them and the various data management and track and trace systems into which they are integrated.

Three of our members have their headquarters in North America, one in Latin America, 15 in Europe and four in Asia. One member is a state security printer and the other 22 are private companies, often with operations spread across the world.

In some cases, members collaborate with other members for the provision of an all-round solution to a revenue or other government authority. For instance, one member may be the printer, one the provider of the substrate, another of material-based security features such as holograms, optical effect inks and taggants, another of the tax stamp ordering and management system and another of the unique identification, database systems and scanning devices needed for track and trace, and yet another for the inline camera systems and scanning devices needed for real-time production monitoring.

Also in most cases, one member company offers more than just one aspect of a solution, ie. material-based security features, reading devices, unique ID marking,
and integrated systems for track and trace.

India, Slovakia, Portugal, Kenya, Armenia, Cameroon, UAE, Sudan, Belgium, Netherlands, Mozambique, Ghana, Saudi Arabia, Malta, Rwanda, Ecuador, Georgia, Colombia, Romania, Vietnam, Lithuania, Canada, USA, Brazil, Chile – these are just some of the countries and states that currently use tax stamp systems provided by ITSA members.

So essentially our members provide the technology tools to allow tax authorities to collect taxes and tackle tax diversion, smuggling and other forms of illicit trade.

ITSA also works closely, however, with NGOs and independent strategic, legal and technological advisors in order to have a full overview of tax recovery and illicit trade issues and to be able to advise government authorities accordingly. Our goal is definitely not to promote one particular technology over another but rather to provide a common voice, based on commonly agreed principles and best practice on behalf of all our members.
How Big is the Problem?
According to the Organisation for Economic Cooperation and Development (OECD), main illegal trade that transnational criminal networks profit from is that involving narcotics, arms, persons, tobacco, counterfeit consumer goods, and wildlife – so a mixture of trade in goods which are in any case banned, as well as goods such as tobacco products which are not.

The OECD states that the growth of world trade has been facilitated by the reduction of tariffs, trade barriers and regulatory burdens and by technological and logistical advances and has provided benefits for both business and consumers. But at the same time, freer trade has provided opportunities for criminals engaged in illicit trade to expand their operations. Their activities undermine economies by reducing government tax revenues, lowering firms’ profits and their innovation incentives, while also jeopardising public health and security.

Governments have taken actions to counter illicit trade, but they are often uncoordinated and/or poorly implemented. In addition, criminal networks have been able to react quickly and dynamically to avoid detection and circumvent law enforcement. As a result, governments need to re-examine their institutional capacities to counter illicit trade.

The OECD identifies three areas where the strengthening of institutional capacities is urgently needed to improve efforts to counter illicit trade. The three areas include:
(i) enhancing the effectiveness of penalties and sanctions for countering illicit trade,
(ii) finding ways to improve the screening of the rising volume of small shipments for illicit products, and
(iii) eliminating criminal activities related to illicit trade that are carried out in free trade zones.

Penalties and sanctions are key deterents for illicit actors, and actions to make them more effective include:
- Strengthening co-operation and expanding the scope of international frameworks, including existing international treaties to counter illicit trade, such as the FCTC Protocol.
- Developing and implementing national strategies to counter illicit trade, such as licensing, improved enforcement... and tax and supply chain control instruments like tax stamps and trace and trace.
Tobacco:
10% global consumption or 600 billion sticks
Annual revenue loss in tobacco taxation worldwide - $40-50 billion
Source: Patrick Petit and Janos Nagy – IMF – How to design and enforce tobacco excise – 2016

Globally, estimates suggest that 10% to 12% of cigarette consumption is illicit. The extent of the problem varies widely across countries (Joossens et al., 2009; Euromonitor International, 2015). Contrary to tobacco industry arguments (Joossens et al., 2009), the market share for illicit cigarettes at the country level appears to have little relationship to tax and price levels. Illicit cigarettes account for a greater share of consumption in countries with relatively low taxes and prices and account for a smaller share of consumption in markets with relatively high cigarette taxes and prices.

Instead, non-price factors, such as strength of governance, extent of corruption, and the availability of informal distribution networks appear to be more important determinants of the size of the illicit tobacco market.

At the international level, smuggling, including counterfeiting and the influx of cheap whites, is the main form of illicit trade, and weak governance (eg. corruption, poor tax administration, weak border controls) is the often the primary driver of this problem.

Alcohol:
Up to 26% of all consumption is illicit (https://go.euromonitor.com/white-paper-alcoholic-drinks-2018-size-and-shape-of-the-global-illicit-alcohol-market.html?refresh=1#download-link)
Legal products distributed domestically
This type of illicit trade is characterised by deliberate manufacturer production overruns. It can be minimised with tax stamps and licensing requirements, along with adequate enforcement. Given this, enhanced tax stamps, particularly those with track and trace mechanisms, are important to maintain an accurate and objective measure of what has been produced by each manufacturer.

Legal products distributed cross-border
This type of illicit trade refers to “returning exports,” where products are manufactured within one jurisdiction, exported to a neighbouring jurisdiction (in order to avoid domestic taxes), and subsequently smuggled back into the original jurisdiction and sold at a lower price.

Track and trace mechanisms can reliably reveal the export practices of a manufacturer to whom the product is being shipped. The ability to trace a product to a particular site or retailer allows enforcement officials to gather information on common distribution routes and practices and the role that manufacturers play in the smuggling network.

Tax stamps are identified to have moderate potential, given that they do not always disclose the place of manufacture or distribution points, unless they are enhanced with a tracking code.
Illegal products distributed cross-border
This pertains to illegal products (counterfeit or produced by an unlicensed manufacturer) that are distributed throughout more than one jurisdiction. Smuggling through large-scale shipments of counterfeit products is a burgeoning global threat.

The distribution of counterfeit cigarettes from producers in China, Eastern Europe and some parts of Latin America has become a major source of contraband in many countries, and requires different policy solutions than those aimed at legitimate producers.

Given that policymakers have no regulatory jurisdiction over cross-border manufacturers, the most common policy measure implemented is enhanced border security and imports inspection, in order to intercept illicit products.

However domestic policymakers do have jurisdiction over the retail sector; protecting the retail level from illegal brands requires a comprehensive licensing regime with adequate inspection and enhanced tax stamps to ensure that illicit products do not enter the legitimate supply chain. Because of the relative ease with which smuggling operations are able to counterfeit generic tax markings. As such, enhanced tax markings have high potential for ensuring that illicit products do not permeate the retail sector. Licensing and enhanced inspections also demonstrate high potential in this area, due to the threat of retail license revocation.

Illegal products distributed domestically
This addresses illegal tobacco products (without a license or registration) that are distributed within one jurisdiction. Here it is assumed that the manufacturer is purposely avoiding a legal responsibility to acquire a license. An example of this would be illicit manufacturers operating in Canada without a license on First Nations reserves.

In this case, enhanced enforcement is the measure with the highest potential because it promotes the closure of a manufacturer in violation of regulatory laws. At the retail level, licensing, enhanced tax stamps, and enhanced enforcement all have high potential for addressing contraband activities. The ability to successfully identify contraband product through enhanced tax stamps, coupled with the financial risks of losing a retail license, can have a profound effect upon retailers’ willingness to engage in illicit trade.
As little as 50 years ago, tax stamps were nothing more than simple pieces of printed paper, with little or no security and no serialisation. They served as tax collection tools as well as physical proof that the correct tax had been paid on the product the stamps were affixed to.

Today, however, as a result of various fiscal, regulatory, normative and socio-economic developments – combined with technological innovations in security printing, serialised coding, data processing and mobile communications – tax stamps have transformed into sophisticated devices with additional roles relating to product authentication and supply chain security.
ENHANCED Tax Stamps
Automated domestic production monitoring

Smartphone apps

Field inspection tools

Track and trace

Business intelligence
According to ISO 22382:

- A material stamp is on a separate substrate which has to be affixed to the product or its packaging.

- Direct marking is the addition of the stamp to the product or its package by printing, blazing etc directly onto the product.

- As direct marking does not offer the variety of authentication features that can be built into a separate tax stamp, the tax authority should require the use of security methods, including inks and other consumables, that incorporate overt and covert components.

- The tax authority should ensure that all driver software and digital data files are secure and the marks include a UID that incorporates or links to data about the product the mark is on.

- The authority should consider a number of factors when choosing between material tax stamps and direct marking: type of packaging, production speed, environmental conditions, space on container, ability to protect and control printed UIDs, value of tax related to cost of reusing container, how to avoid direct-marked components being illegally reused.
Summary: The Basic Equation

TRACEABILITY + AUTHENTICATION = HIGH SECURITY + $ $ £ Increased tax revenues
Working with Standards

- ISO 22382:2018 – tax stamps
- ISO 12931:2012 – authentication solutions
- ISO 14298:2013 – security printing processes
Compliance Standards:

Establish a set of requirements for manufacturing processes, product specification or service that an organization must meet in order to be certified that it or its products meets those requirements.

Certification is granted after inspection by an authorised organisation (i.e. authorised by the organisation that issued the standard).

Inspection may take several days and is paid for by the organisation being inspected.

If a certificate is issued then there are audit visits every few years to ensure the organisation still complies.

Guidance Standards:

Codify and describe best practice to help improve quality in the field of the standard.

No need for inspection and certification, although organisations may publicise that they apply and follow the standard.
ISO 22382: 2018 Security and resilience – Authenticity, integrity and trust for products and documents – Guidelines for the content, security, issuance and examination of excise tax stamps

This is a new standard – published in November last year – that could serve as your “bible” or route map in your approach to tax stamps.

That the title means:

Security & resilience – the title of ISO Technical Committee 292 under which this standard was created

Authenticity, integrity and trust for products and documents – the title of this TC’s Working Group 4, which created the standard

Guidelines for the content, security, issuance and examination of excise tax stamps – the actual title of the standard. This explains what it covers.

And this is the simple statement from the standard that explains its purpose.

‘The purpose of this international standard is to assist tax authorities to enhance compliance with excise tax regulations by implementing new, or improving existing, excise tax stamps and associated issuance systems.’
The arrows highlight the three key decision steps in defining your tax stamp.

It doesn’t tell you what to do but what you need to consider.

It then gives you guidance on how to implement these decisions.
ISO 22382 recommends: “that the tax authority develop a track and trace system for tax stamps that allows it to find when, where and by which entity the tax stamp was applied on the product.”

The WHO’s FCTC requires “each party shall require that unique, secure and non-removable identification markings, such as codes or stamps, are affixed to or form part of all unit packets [...] of cigarettes [...]”

It is the Unique Identifier (UID) that delivers this traceability (or track and trace) ability.

ISO has 2 related standards to help in this: ISO 16678:2014 and ISO 22381:2018, both titled “Guidelines for establishing interoperability among object identification systems to deter counterfeiting and illicit

ISO 16678 provides a general framework for using unique identifiers (UIDs), highlighting their strengths and weaknesses. Specifically, it identifies acts of fraud that may occur when UID codes are copied, re-originated, guessed, or reused (duplicated).

ISO 22381 provides guidance on how to specify an open environment for identification and authentication.

Both of these standards (and others) point out that a UID on its own does not
provide authentication – the UID provides traceability; authentication is provided by complementing security features – which we come to in a couple of slides.

You might also want to look at GS1’s Global Traceability Standard, although this is more relevant to your supplier in terms of its implementation.
ISO 22382 guides you to include multi-layer security features in your tax stamp, and refers you to ISO 12931, which lays out the criteria for and characteristics of these layers of security features.

**ISO 12931:2012 Performance criteria for authentication solutions used to combat counterfeiting of material goods**

Note that this standard is being updated and revised, and will soon be re-issued as ISO 22383
There’s no point in having the most secure tax stamp possible if your supply chain is vulnerable!

ISO 22382 recommends that you use a security printer as your supplier.

“The tax authority should ensure that its suppliers are authorised security printers as tax stamps are value documents. A security printer is one that:
— uses equipment and components to produce secured documents;
— manages its operation to keep the document and data secure;
— has premises and staff security;
— has control and audit of production quantities, waste management and secure shipping.”

Fortunately there are standards to help you find a certified security printer.


It’s interesting to note a difference between these standards, which reflects the different approach to security printing in Europe and the USA. The ISO standard was based on a European standard devised by Intergraf, and it takes a process approach –
setting out how a printer should manage their security document printing processes. The ANSI/NASPO approach is more prescriptive, giving details of what should be included in a document to make it secure.
ISO 22382
Technical foundation for FCTC Protocol
Preparing for FCTC Protocol
Let’s look first at the World Health Organisation’s Framework Convention on Tobacco Control and its Protocol to Eliminate Illicit Trade in Tobacco Products – in particular the section of interest to tax stamps: tracking and tracing.

The Protocol is an international treaty aimed at eliminating all forms of illicit trade in tobacco products. It provides tools for preventing illicit trade by securing the supply chain, including by establishing an international track and trace system.

The Protocol entered into force on 25 September 2018, and has been ratified by 56 parties, including the European Union.

The 56 parties now have five years to implement the provisions of the Protocol, including a global tracking and tracing regime, comprising national and/or regional tracking and tracing systems and a global information-sharing focal point located at the Convention Secretariat and accessible to all Parties.
Specifically, the Protocol calls for unique, secure and non-removal identification marking, such as codes or stamps, to be affixed to or form part of all unit packets and any outside packaging of cigarettes and other tobacco products.

It also requires that the following information be available, either directly or accessible by means of a link, to assist parties in determining the origin of tobacco products, the point of diversion where applicable, and to monitor and control the movement of tobacco products and their legal status:

(a) date and location of manufacture;
(b) manufacturing facility;
(c) machine used to manufacture tobacco products;
(d) production shift or time of manufacture;
(e) the name, invoice, order number and payment records of the first customer who is not affiliated with the manufacturer;
(f) the intended market of retail sale;
(g) product description;
(h) any warehousing and shipping;
(i) the identity of any known subsequent purchaser; and
(j) the intended shipment route, the shipment date, shipment destination, point of departure and consignee.

Each party shall ensure that this information is accessible to the global information-sharing focal point on request through a standard electronic secure interface with its national and/or regional central point.

A key requirement of the FCTC Protocol is that the parties are not to delegate any of its obligations to the tobacco industry – or at least to restrict such obligations to the bare minimum.

Although this is a health treaty involving essentially the ministries of health, revenue and customs authorities will likely be at the forefront of implementing the track and trace requirements of the treaty. Since about 90 countries and numerous states and provinces already have a tax stamp programme in place – many with the capability to integrate with a track and trace system – it seems only logical to leverage what exists already in order to comply with the provisions of the Protocol.
The current status with implementation of the Protocol is that a long technical report on track and trace has been issued by an expert panel to the FCTC, with a lot of recommendations but nothing has been decided yet.

The parties to the Protocol had their first meeting in Geneva in October where it was decided that a working group on track and trace, unique identification and global information-sharing requirements of the Protocol needed to be set up, to come up with a technical proposal for consideration by the FCTC, based on the expert report.

Specifically, the objectives of the working group – which was intended to be formed early this year but which we now understand will only get going in the second half of the year – will be to compile a set of good practices and experiences relating to national or regional track and trace and unique identification systems, as well as prepare a conceptual analysis, with a clearly defined timeframe, of how a global information-sharing focal point could be set up.

The group will comprise two members from each of the six WHO regions (Africa,
Americas, South-East Asia, Europe, Eastern Mediterranean and Western Pacific), with each member representing a country that is party to the Protocol within its respective region.

For some regions, the choice of representative will be easier than for others. For example, in the SE Asia and Western Pacific regions there are only two Protocol parties anyway (India and Sri Lanka in SE Asia, and Mongolia and Samoa in Western Pacific). On the other hand, there are 16 parties in the African region so the selection will be more complex.

It is not clear from which government departments these representatives will be selected. One would imagine mainly health representatives but tax and customs authorities will certainly have a role to play, even if they are not the main representative of the working group.

In addition to these 12 representatives, the working group welcomes (albeit with observer status) those parties to the WHO FCTC that are not parties to the Protocol, as well as up to three members of NGOs and three of IGOs with the expertise and knowledge to help the group achieve its objectives.

The working group will be expected to circulate draft reports to the parties in time for MOP2, which will be held in October 2020 in the Netherlands.

LATEST NEWS: Mr. José Ruales is no longer in the Ministry of Health in Ecuador and has been replaced by Mrs. Sara Pilar Aucancela Sánchez who becomes at the same time the new President of the MOP. She will be in GVA for COP/MOP meeting week of 23 sept
In response to demand from government officials and other stakeholders for a tool to connect the normative guidance of the WHO FCTC Protocol with specific actions to bring this Protocol to life, the World Bank released in January an extensive, 700-page tome, entitled *Confronting Illicit Tobacco Trade: a Global Review of Country Experiences*.


The review states that while confronting illicit trade in tobacco products is critical to effective tobacco control, addressing this issue poses complex political, legal, and technological challenges. As such, illicit trade is one of the topics for which policymakers and programme implementers most frequently request information and technical collaboration from international organisations.

Hence this – rather long, but very important – review, which uses empirical data and analyses from the experiences of different countries to identify what has worked, what hasn’t worked, and why, culminating in a set of recommended actions for reducing illicit tobacco trade. These actions include the use of secure excise tax stamps and effective track and trace solutions.

Let’s take a look at each of these actions in more detail.

**Strategic actions**

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<td>Diagnose different forms of illicit trade</td>
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<td>Understand causes and drivers</td>
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<td>Strengthen country data and implementation processes</td>
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<td>Avoid reliance on tobacco industry</td>
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<td>Build inclusive, political coalitions against illicit trade</td>
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<td>Work across sectoral silos</td>
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<td>Address illicit trade as integral part of overall tobacco control</td>
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<td>Encourage and draw on regional and global cooperation</td>
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The review identifies the following strategic steps that governments are recommended to take:

**Diagnose the different forms of illicit trade:** tobacco illicit trade takes a variety of forms, varying in type and severity by country. These include: smuggling across borders; declaring products for export (and thus not subject to domestic tax) and then selling them on the domestic market; selling undeclared production (e.g. an undisclosed third production shift); producing counterfeits of legitimate brands; producing low-cost unbranded cigarettes destined for illicit markets (so called ‘illicit whites’); using free zones to leak cigarettes to the domestic market; and selling tobacco products via Internet. Each form of tax evasion has somewhat different implications for tax administration and enforcement, advises the review.

**Understand the causes and drivers:** tobacco illicit trade stems from a wide range of causes, including: weaknesses in governance and the regulatory framework; corruption; insufficient capacity of enforcement and judiciary systems; the existence of informal distribution and organised crime networks; having a border with another country suffering from similar problems; and expected profitability of tobacco illicit trade. The country cases strongly confirm that the most important determinant in illicit tobacco trade is tax administration.

The review states that countries as different in levels of economic and institutional development as the UK, Kenya, and Georgia have all successfully improved the effectiveness of their tobacco tax administration and, by doing so, have reduced tobacco illicit trade while increasing tobacco taxes and tobacco tax revenues. Addressing illicit trade and raising tobacco taxes should therefore be viewed as mutually reinforcing and complementary actions.

**Strengthen country data, analysis, planning, and implementation processes:** the UK, Australia, and Ireland case studies visibly demonstrate the importance of reliable data, analysis, planning, and implementation oversight, explains the review.

The process should start with the mapping of: the supply and demand for tobacco products; what is known about illicit tobacco trade; the modus operandi of actors involved in illicit trade; the capacity, commitment, and accountability of government agencies and resultant effectiveness of tax/customs administration. Illicit trade activities, as well as industry activities, require intensive monitoring. In addition, having access to high-quality local market data, including smoking prevalence and intensity, is critical.

However, not having data regarding the size of the illicit market is not an excuse for inaction, warns the review. The absence of such data has not stopped Kenya, Georgia, or the Philippines, for example, from moving ahead in controlling illicit trade in tobacco products. Country strategies to reduce illicit trade should establish policies, legislation, and regulations appropriate for specific country contexts.
It is critical to note that having a strong strategy on paper is important but not sufficient, unless such plans can be operationalised. Additionally, strategies should integrate the strengthening of capacity, incentives, and accountability needed for effective implementation (including enforcement measures).

**Avoid reliance on the tobacco industry:** the role of the tobacco industry poses a challenge to countries seeking to address illicit trade, since it is often itself linked to illicit tobacco trade, either directly or indirectly.

The UK and Ireland case studies emphasise the need to fulfil obligations under the FCTC to prevent the industry from influencing public policy. The case studies, including Colombia, Australia, Georgia, and Malaysia, also confirm prior findings that the tobacco industry regularly overstates levels and changes in tobacco illicit trade to oppose tobacco tax reforms.

And the Georgia and Uruguay case studies show that when the government responds to industry pressure and reduces taxes due to fears regarding tobacco illicit trade, the result is a decline in revenues and an increase in consumption, while the true drivers of illicit trade in tobacco products remain unaddressed.

**Build inclusive, political coalitions against illicit trade in tobacco products:** strong and successfully implemented country strategies require enlisting support and finding champions at top levels of ministries and governments, as demonstrated in Georgia, the Philippines and the UK.

Another crucial element of gaining political support is to build alliances with key stakeholders in civil society, including NGOs, think tanks, and the media, as emphasised by Kenya, UK, Georgia, Colombia, and Bangladesh. Involving the public in addressing illicit trade both supports enforcement and reduces the demand for illegal products. Issues of political economy also affect enforcement – the Mexico and Kenya case studies highlight the importance of the electoral cycle and the overall national security context on the effectiveness of tax administration and enforcement.

**Work across sectoral silos:** Colombia, Chile and Kenya identified lack of integration across sectors at the national and subnational levels as the major obstacle in controlling illicit tobacco. These analyses, in conjunction with the Bangladesh, Australia and Mexico case studies, emphasise that success in adopting and implementing strong programmes to combat illicit trade and implement tobacco tax reform requires active and coordinated support from numerous ministries/government agencies. Coordination is particularly important in integrating tobacco illicit trade control into strategies for tobacco tax reform and overall tobacco control programmes.

**Address illicit trade as an integral part of tobacco tax reform and overall tobacco**
control: the country cases, including those of the Philippines, the UK and Ireland clearly demonstrate the complementary nature of addressing tobacco illicit trade and implementing tobacco tax reform. Confronting illicit trade should be an integral part of a country’s overall approach to tobacco control, advised the review. The key elements of tobacco tax reform have recently been summarized in the World Bank publication *Tobacco Tax Reform: At the Crossroads of Health and Development*.

**Encourage and draw on regional and global cooperation/partnerships:** as recommended in the Protocol, countries should support and draw on regional, sub-regional and global, partnership arrangements to address illicit trade and implement tobacco tax reform. This can help, for example, in reducing substantial disparities in tobacco taxes in neighbouring countries by pulling countries up to a common higher tax level, as well as in coordinating cross-border/regional efforts to reduce tobacco illicit trade.

At the global level, the most effective way a country can benefit from and contribute to promoting international collaboration is to join the FCTC Protocol. Ratifying the Protocol has advantages that go beyond knowledge sharing and coordination of enforcement efforts, including access to technical assistance in implementing the Protocol and establishing track and trace systems.
Specific actions

In addition to the broad, strategic directions described above, the review highlights specific actions that decision makers should use to rapidly achieve gains. These include:

Require licensing for the full tobacco supply chain: at present there is licensing at least for all manufacturers, importers, exporters, and distributors in almost all country cases. What is needed is for each country to assess its capacity to require the licensing of the rest of the supply chain, particularly retail. As noted in the Canada case study, the best example of using licensing to control the supply chain is in the province of Quebec, where the entire supply chain is licensed, including tobacco growers, transporters, manufacturers, those who store raw tobacco and/or final products, importers, wholesalers, retailers, as well as those in possession of manufacturing equipment. Tobacco importers are licensed in Malaysia, and the Philippines requires suppliers of raw materials for the production process, including those providing tobacco papers and filter components, to be licensed.

Require use of secure excise tax stamps and other product markings to facilitate enforcement and tax collection, as required by Article 8 of the Protocol: these markings should possess multiple layers of security (as implemented in Kenya, Georgia, and the Philippines, for example); they should not be removable and they should be destroyed when the pack is opened (also to prevent reuse). The absence
of secure excise marking in Southern African Customs Union countries, Chile, and Mexico weakens the ability of the tax authorities to collect taxes, as noted in the case studies.

**Establish effective track and trace systems to follow tobacco products through the supply chain from production or import to sale to consumers (Article 8 of the Protocol):** secure excise stamps are crucial but not sufficient to prevent tax evasion if there is no downstream verification that cigarettes have tax stamps and that they are authentic.

A track and trace system would help address the challenge posed by under-declared domestic cigarette production or production declared for export but then sold on the domestic market. Georgia, Kenya and the Philippines, for example, already have systems in place for the tight monitoring of domestic production and imports, using unique identifiers combined with excise stamps. And Ecuador’s track and trace system for domestically produced cigarettes, alcoholic beverages, and beer, implemented by its Internal Revenue Service in 2017, is the first track and trace system to comply with the Protocol, advises the review.

The review similarly identifies the absence of a track and trace system as the major obstacle to controlling illicit tobacco trade in several countries. For example, in Botswana, Lesotho, Namibia, South Africa, Eswatini and Zambia, the review advises that the most impactful investment governments can make is to adopt secure fiscal marks on tobacco products, as this would allow administrations to monitor production volumes, track excisable goods through the supply chain, authenticate genuine products, identify whether all duties and taxes have been paid, and trace goods that are found on the market back to specific manufacturers. Without these controls, administrations have no means of distinguishing illicit from licit.

In Mexico, meanwhile (where tax stamps are used on alcoholic beverages but not on cigarettes), one of the main weaknesses of this country’s strategy to combat illicit tobacco had been the absence of a system for monitoring and tracking products manufactured in the country. With the implementation of a new fiscal mark in late 2017, however, it is now possible for Mexico to obtain data on producers and importers, as well as production data.

Yet, because of the lack of transparency regarding the generation of the mark (which consists of an alphanumeric code and 2D barcode based on the tobacco industry’s own Codentify technology), it is unclear if this process is independent and free of conflict of interest. As stipulated in the Mexican tax regulations, it is critical that the tax authority publish a list of code service providers and periodically supply information about how the data are used.

It is also important to consider that the security features of the code are relatively basic and should be reinforced with physical security elements. Other successful tracking and tracing systems, such as the one implemented in Brazil, combine visible
and non-visible elements to improve efficacy.

Establish effective enforcement teams equipped with automated reporting devices, to reduce human discretion in tobacco tax administration: this feature played a major role in improving the level of enforcement in Kenya and Georgia. However, the Kenya case also underlines the importance of enforcement agents with the power to carry out inspections at any time and at any point in the supply chain, to seize illicit products on the spot, and to bring immediate charges against offenders.

Obtain detection equipment and use it effectively at customs posts: most countries already have access to detection equipment, although not necessarily in adequate quantity. Potential governance challenges, with respect to the use of this equipment, can be further reduced by separating the roles of generating and interpreting scans (as noted in the Kenya case study).

Develop a risk profile to target inspections: the Chile case highlights the use of a risk analysis tool for targeting suspicious cargo and to generate customs alerts.

Set relatively low duty-free allowances for tobacco product purchases, both in terms of amounts (eg. only two packs, as in Australia) and frequency (eg. only once every 30 days as in Georgia). Chile shows how the lack of restrictions on frequency led to substantial but legal small-scale tax avoidance.

Regulate or ban trade in tobacco products in free trade and other special economic zones: the Chile case study illustrates how the relative freedom from regulation in these zones can make them gateways for domestic sale of untaxed tobacco products. In contrast, Colombia and Malaysia both established a strict regulatory framework for free trade zones to prevent this challenge.

Set and enforce significant financial penalties and penal provisions for illicit trade: seizures, financial penalties, and other punishment severe enough to be a deterrent (unlike some of those reported in the Kenya case study) are important. Criminal prosecutions are particularly important as deterrents, as indicated in both the UK and Colombia.

Provide for secure destruction of seized cigarettes, carried out by the regulatory authorities and not by the tobacco industry: in Mexico, customs officials destroy seized cigarettes, while in the Philippines approval and presence of a Bureau of Internal Revenue representative is required. In contrast to this guidance, in South Africa an industry-representative body is responsible for the destruction of illicit goods.

Educate the public on the impact of tobacco illicit trade: getting the public involved supports enforcement and reduces the demand for illegal products. The Philippines and Kenya introduced apps for the public to verify the authenticity of cigarette
packs, while the UK ran a public awareness campaign explaining how purchasing illegal cigarettes harms the country and local communities.

Complementing and supporting the WHO FCTC Protocol, the case studies presented in the review demonstrate that countries can and do contain or reduce illicit trade while advancing other effective tobacco control strategies, including tax increases. Indeed, the opportunities for success are greater now than ever, for those countries prepared to take bold action, concludes the review.
How can Tax Stamps Fulfil FCTC Protocol Requirements for Secure Track and Trace?
**Article 8:** "Unique, secure and non-removable identification markings (UIMs), such as codes or stamps, must be affixed to or form part of all unit packs and outside packaging of tobacco products sold in each party’s territory"
# UIM Components

<table>
<thead>
<tr>
<th>GROUP UIM 1</th>
<th>GROUP UIM 2</th>
<th>GROUP UIM 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unique identifier</td>
<td>(a) date and location of manufacture</td>
<td>(c) machine used to manufacture products;</td>
</tr>
<tr>
<td><em>Must form part of marking</em></td>
<td>(b) manufacturing facility</td>
<td>(d) production shift or time of manufacture;</td>
</tr>
<tr>
<td></td>
<td>(f) intended market of retail sale</td>
<td>(e) name, invoice, order number and payment records of first customer not affiliated with manufacturer;</td>
</tr>
<tr>
<td></td>
<td>(g) product description</td>
<td>(h) warehousing and shipping info;</td>
</tr>
<tr>
<td></td>
<td><em>Must form part of marking</em></td>
<td>(i) identity of subsequent purchaser;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>intended shipment route, date, destination, point of departure and consignee</td>
</tr>
</tbody>
</table>

*Can be accessible via a link*
UIM Components

UIM 1
UID in machine readable form (2D barcode) & Human Readable Text
PRE-PRINTED ON TAX STAMP

UIM 2
(a) date and location of manufacture;
(b) manufacturing facility;
(f) the intended market of retail sale;
(g) product description;
PRE-PRINTED ON TAX STAMP OR DIRECTLY ON THE PACK

UIM 3
(c) machine used to manufacture tobacco products;
(d) production shift or time of manufacture;
(e) the name, invoice, order number and payment records of the first customer who is not affiliated with the manufacturer;
(h) any warehousing and shipping;
(j) the identity of any known subsequent purchaser; and
(k) the intended shipment route, the shipment date, shipment destination, point of departure and consignee.
GENERATED AND RECORDED AT TIME OF SHIPMENT
The EU Tobacco Products Directive is another supra-national regulation which affects all 28 countries of the European Union, and which is much more advanced than the FCTC Protocol. In fact the requirements for track and trace and security features were implemented in May 2019 which means that EU states have now identified who is going to apply their unique identifier for track and trace, who will set up their data storage requirements and which security features they will be applying.
In order to illustrate where these concerns come from, let’s compare the EU system with the secure tracking and tracing provisions of the WHO FCTC Protocol.

As a reminder, the Protocol is an international treaty aimed at eliminating all forms of illicit trade in tobacco products. It provides tools for preventing illicit trade by securing the supply chain, including by establishing an international track and tracing system.

The Protocol entered into force on 25 September 2018, and has been ratified by 56 parties, including the European Union – but not including the United States nor its immediate neighbours, Canada and Mexico.

The 56 parties now have five years to implement the provisions of the Protocol, including a a global tracking and tracing regime, comprising national and/or regional tracking and tracing systems and a global information-sharing focal point located at the Convention Secretariat and accessible to all Parties.

Specifically, the Protocol calls for unique, secure and non-removal identification marking, such as codes or stamps, to be affixed to or form part of all unit packets and any outside packaging of cigarettes and other tobacco products.

It also requires that the following information be available, either directly or accessible by means of a link, to assist parties in determining the origin of tobacco products, the point of diversion where applicable, and to monitor and control the movement of tobacco products and
their legal status:
(a) date and location of manufacture;
(b) manufacturing facility;
(c) machine used to manufacture tobacco products;
(d) production shift or time of manufacture;
(e) the name, invoice, order number and payment records of the first customer who is not affiliated with the manufacturer;
(f) the intended market of retail sale;
(g) product description;
(h) any warehousing and shipping;
(i) the identity of any known subsequent purchaser; and
(j) the intended shipment route, the shipment date, shipment destination, point of departure and consignee.

A key requirement of the FCTC Protocol is that the parties are not to delegate any of its obligations to the tobacco industry – or at least to restrict such obligations to the bare minimum.

The EU system has the same objectives as the Protocol, albeit for the EU territory only, however it has some key differences as shown in this table.
The Framework Convention Alliance (which is made up of nearly 500 non-government organisations from over 100 countries, working on the development, ratification and implementation of the WHO FCTC) warns that the EU system should not be considered as a blueprint for the track and trace system required under the FCTC Protocol, and that the shortcomings of the system, together with its unique European context require that parties to the Protocol take a ‘close look under the hood’ before deciding on any wholesale adoption of the system in their own territories. (https://www.fctc.org/blog/what-lessons-can-we-learn-from-the-eu-tobacco-tracking-and-tracing-system/).

The FCA highlights key shortcomings of the system and makes a number of recommendations for parties to the Protocol to consider. These include:

**Key shortcomings**

- A major flaw in the EU system is that it conflicts with Article 8.12 of the Protocol, by allowing certain obligations to be delegated to tobacco companies. For instance, manufacturers and importers are able to choose their own data storage providers and auditors;
- Independent third parties do not have sufficient control over the unique identifiers applied to tobacco products at the time of manufacture. This is a weakness that the tobacco industry can exploit to flood the black market with cigarette packs that have no (or cloned) unique identifiers;
• When it comes to the rules for third parties and data storage companies involved in the EU system, several data storage providers and ID issuers, for instance, with historical links to tobacco companies have already been appointed to be part of the EU tracking and tracing system;

• The security feature under the EU system is required to authenticate the pack, but not necessarily the unique identifier, whereas Article 8.3 of the Protocol requires a ‘unique, secure, and non-removable identification marking.’ Furthermore, the EU system only requires that one out of five authentication elements be sourced from an independent provider;

• The EU system requires a time stamp at the time of manufacture. This seems to be a good idea, on the surface. But make no mistake: time stamps add another layer of complexity and create a problem when tax stamps are used for traceability purposes because tax stamps are generated in advance of the manufacturing.
Two new studies from the Tobacco Control Research Group (TCRG) at the University of Bath, UK, have exposed evidence that Big Tobacco companies are: 1) still facilitating tobacco smuggling while attempting to control a global system designed to prevent it; 2) funding studies that routinely overestimate the levels of tobacco smuggling. (http://www.bath.ac.uk/health/research/tobacco-control/)

The findings, which were published in the BMJ journal Tobacco Control, follow a major announcement in August from Bloomberg Philanthropies, appointing the TCRG as one of the leaders of an all new $20 million global tobacco industry watchdog aimed at countering the negative influences of the industry on public health. The watchdog (called STOP – Stopping Tobacco Organisations and Products) intends to, in particular, highlight tobacco industry activity across low- and middle-income countries.

The study suggests the industry continues to be involved in tobacco smuggling. Recent data consistently show that at global, European and national level, the majority of the illicit cigarette market still comprises genuine tobacco industry product, as opposed to illicit whites and counterfeits.

The study refers to latest estimates that approximately 60%–70% of the illicit market consists of genuine tobacco industry product, with specific figures varying between 58%–73%. This has occurred despite the use of Codentify in (according to the industry) over 100 countries worldwide, which would suggest that either Codentify is...
technically unfit for purpose or that tobacco industry control renders it useless.

By comparison, the problem of counterfeit, which the industry continuously emphasises, comprises only 5%–8% of the illicit market. The contribution of illicit (or cheap) whites represents, in most cases, around a fifth to a third of the illicit market.

While the smuggling of some tobacco industry cigarettes may be outside its control, the sheer volume suggests some involvement, advises the study. The combined evidence of whistleblowers, researchers, investigative journalists, government reports, investigations, accusations and fines suggests that industry involvement has been going on since the 1990s.

At best, evidence indicates that tobacco companies are failing to control their supply chain, overproducing in some markets (eg. Ukraine) and oversupplying to others (eg. Belgium) in the knowledge that their products will end up on the illicit market.

Undermines Protocol

This combination of events (ie. industry’s attempts to have its track and trace system accepted under the Protocol, combined with evidence to suggest it is still involved in smuggling its own product), carries the risk of fundamentally undermining the Protocol.

The study warns that its findings signal a very real danger of regulatory capture of the governmental and intergovernmental institutions responsible for addressing tax evasion, and of TTCs ultimately ending up controlling the global track and trace system under the Protocol.
If you are a supplier of tax stamps or their related components, substrates, features and systems, and are interested in joining ITSA, or if you are a government authority who would like to find out more about what we can offer in terms of advice and information on tax stamp programmes, we have a booth set up in the exhibition area where you can talk to our representative and pick up a membership form and brochure outlining our activities and membership benefits.

I will also of course be happy to discuss any of the points raised in this presentation with you during the rest of the conference.

I would like to emphasise that ITSA is actively seeking to grow its membership base in order to be to achieve all the projects it has in prospect. Therefore, apart from qualitative benefits that include the opportunity to contribute to the drafting process of the ISO tax stamp standard, we are also offering quantitative benefits that include a free subscription to Reconnaissance’s monthly Tax Stamp News, a 20% discount to attend the Tax Stamp Forum, and tax stamp tender alert notifications. But please visit our booth to find out more.
Roundtable Discussions

1. What are the specific challenges around illicit trade in your region?
2. How are these challenges currently being addressed (or not) in terms of tax stamps and track and trace systems?
3. What is needed to fill the gaps / improve the current systems?
4. How can solution providers better help you?
De La Rue – Digital Tax Stamp Scheme, Maximising Revenues, Protecting citizens – Case studies
De La Rue Government Revenue Solutions

De La Rue delivers a full solution to tackle all forms of illicit trade

- Secure stamps for tobacco, wine, spirits and imported beer
- Digital markers for high-volume drinks
- DLR Certify™ to manage the process and provide traceability and mobile inspection
- Customer service centre to provide support throughout contract including local stamp distribution

De La Rue delivers a solution with NO cost for the Revenue Authority

- All investment and upfront capital costs made by De La Rue
- All costs included in price of tax stamps and direct codes charged to manufacturers and importers
- Prices kept low to ensure compliance and support from manufacturers

Why De La Rue is the right partner to deliver your solution

- Solutions provided as partners to governments for 200 years
- Highest levels of integrity from a FTSE 250 UK public company
- Manufacturing and supply chain to cash centre standards
- Unparalleled reputation in the world of security documents
Illicit Trade is a problem for all of us……

<table>
<thead>
<tr>
<th>Problem</th>
<th>Counterfeiting</th>
<th>Smuggling</th>
<th>Tax Evasion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scale</td>
<td>$650 Billion</td>
<td>600 Billion</td>
<td>58.6 Billion</td>
</tr>
<tr>
<td></td>
<td>The illicit economy, primarily driven by the sale of counterfeit goods, is valued at US$650 billion worldwide.</td>
<td>The illegal, unregulated black market in cigarettes amounts to 600 billion cigarettes a year of 11% of global consumption.</td>
<td>In the EU alone, 58.6 billion illegal cigarettes were consumed in 2013, equating to revenue losses of approx. €10.9 billion.</td>
</tr>
<tr>
<td>Solution</td>
<td>To differentiate real products from fake ones is essential either through physical marking or digital means.</td>
<td>To understand where a product is going and where it has been – its track &amp; traceability – is a key element in identifying smuggled goods.</td>
<td>Volume verification, through the use of tax markings or data analysis, ensures that excise revenues are collected efficiently on all products where they are due.</td>
</tr>
</tbody>
</table>
Excisable Goods

Governments can apply solutions to ensure collection of excise duty on a variety of different products:

- Tobacco products
- Wine & spirits
- Beer
- Sugary drinks
- Water
De La Rue solutions for all products

A solution to address all forms of illicit trade

Secure tax stamps to give absolute authentication for tobacco, wine, spirits & low volume beer and soft drinks

Direct code printing for domestic high volume beers and soft drinks

DLR Certify™ traceability software for track & trace and reporting

Intelligent tax stamp for tobacco with direct printed code for track & trace

Intelligent tax stamp for wine and spirits

Intelligent tax stamp for small volume imported beer and soft drinks

Direct printed code for cigarettes, high volume beer and soft drinks
Tobacco Products - cigarettes

Secure tax stamps and track and trace marker

Physical TaxStamp:
- Carries Security Features
- Visible “tax paid” marker

Not used for track and trace

issued by De La Rue

Applied by manufacturer

Compliant with WHO Framework Convention on Tobacco Control

Compliant with EU Tobacco Products Directive

Digital Pack Code
- Track and Trace marker

Issued by De La Rue

Printed directly to pack by manufacturer

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Spirits and Wine

Secure tax stamps with track and trace marker

Physical Tax Stamp:
- Carries Security Features
- Visible “tax paid” marker
- Used to seal the bottle and prevent refill with illicit alcohol

Code on stamp is used for track and trace

Issued by De La Rue

Applied by manufacturer
Beer and Soft Drinks

Secure track and trace marker

Digital Secure Marker
- Track and Trace marker
- Printed directly onto bottles and cans
- Suitable for standard high speed CIJ systems

Issued by De La Rue

Digital security, no need for special inks

Code structure and intelligent software prevent counterfeiting and cloning

Common system architecture with tobacco solution and in-field inspector interface
Tax Stamp example - cigarettes
Underpinned by a secure software platform

**DLR Certify™ delivers control and traceability**
Order management process for efficient and secure ordering and supply of stamps and codes under control of the revenue authority

Reporting and monitoring for all forms of illicit activity

Mobile inspection enables intelligence led enforcement

Future-proof system expands to meet revenue authority needs and global regulations, e.g. WHO FCTC

Full system located in highly secure ISO27001 compliant data centres, hosted internationally or in country of use
The digital process for ordering and approval

1. Licensee raises order
2. Government approves order
3. Stamp producer or government fulfills order
4. Licensee receives and applies stamps
5. Product shipped, enters retail market
6. Consumer purchases product
Operations, Reporting and Mobile Authentication

- Intuitive user interfaces for registering suppliers and processing orders
- Full control for Revenue Authority to ensure compliance with legal requirements
- Reporting to support enforcement
- Mobile app for inspectors with full event logging
Fast Implementation, maximising tax revenues

Tried and tested and implemented quickly and efficiently

Experience from more than 150 years of tax stamp production
• First revenue stamps produced for U.K. government in 1863
• In 2019 we have contracts to manufacture more than 6 billion tax stamps for 12 countries
• Plus an additional 7 billion track and trace codes for tobacco and drinks products

FCTC / EUTPD tobacco solutions in the UAE, Saudi Arabia and U.K. all implemented in the last 18 months
• UAE in 9 months, Saudi Arabia in 6 months and the UK in 6 months
• Including tax stamps, data hosting, unique codes, reporting and mobile authentication
• Together with product management, training, customer service centres and complete in life support

A proven solution to maximise tax revenues and reduce illicit trade
• Our solution in Cameroon for tobacco and alcohol has doubled tax revenues in 3 years
• In Sudan, our solution for tobacco has seen declared volumes rise from 600 million to 1 billion packs

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Delivered at no cost to the Government

No investment needed by the government

All capital investments and upfront costs covered by De La Rue
DLR Certify™, tax stamps, digital codes, implementation, training, service centre and ongoing support
All costs rolled into tax stamp and/or digital marker price
No cost to governments and no financial risk

Government commitment

An exclusive contract for a pre-agreed term with a minimum committed volume to allow us to amortise our costs
A tried and tested solution

**Sudan Customs Authority**

- 1 billion tobacco tax stamps per year
- 250 Government staff trained
- DLR Certify™ Order management & traceability + in-field authentication
- 67% Increase in tax revenues

**Cameroon Ministry of Finance**

- 150 million Tobacco and spirits tax stamps per year
- 300 Government staff trained
- DLR Certify™ Order management & traceability + in-field authentication
- 100% Increase in tax revenues in 3 years

**United Arab Emirates Federal Tax Authority**

- 350 million Tobacco stamps per year
- 1.5 billion Soft drinks stamps per year
- (estimated)
- DLR Certify™ Order management, Full track & trace for tobacco products + in-field authentication
- FCTC and EUTPD compliant
## De La Rue’s Latest Wins

### UK: HMRC

To meet the requirements of the EU Tobacco Products Directive, De La Rue is implementing a digital solution to track and trace the c1.7 billion cigarette and hand rolling tobacco packs sold in the UK each year through a unique identifier. As part of the contract, De La Rue will also manage the service for HMRC with all tobacco manufacturers, importers and relevant economic operators serving the UK tobacco products sector.

EU Tobacco Products Directive (EUTPD) Art.15

### Europe

De La Rue has secured multiple contracts to deliver more than 3.5 billion tax stamps each year to be applied on tobacco products sold in the UK, France, Austria, Sweden, Finland and Cyprus.

The tax stamps are custom designed to meet the specific requirements of authentication. In compliance with the EU Tobacco Products Directive (EUTPD) Art.16, the stamps also contain visible and invisible security features.

### The Kingdom of Saudi Arabia

De La Rue has signed a five-year contract with the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia to implement and operate a digital tax stamp solution for all tobacco products and soft drinks sold in the Kingdom. The solutions ensures that the Kingdom of Saudi Arabia complies with the World Health Organisation’s Framework Convention for Tobacco Control.
Thank You

Please contact us to request further information

Jerome Pichot | De La Rue
Head of Product Marketing, Authentication & Traceability

Jerome.pichot@delarue.com | tel: +44 (0)1968 686 122 | mobile: +44 (0)7444 653 082

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Closed Meeting for Government Authorities
Hosted by ITSA

CASE STUDY
Tobacco T&T in Chile

Budapest
Wednesday 11 September 2019

Presented by: Ruggero Milanese
Director, Product Marking & Traceability Solutions
SICPA SA
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TOBACCO MARKET IN CHILE

- Market: 1.2 billion tobacco packs / year
- 95% of the market is domestically manufactured
- 5% imported
- 20 fully automated production lines operating 24x7
- Estimated illicit trade: 17%
PROJECT HISTORY

- 2010: Casa de Morena initiates internal project to promote T&T in the country
- 2015: Law and Decree passed
- 2016: Revenue Service launches 2 RFPs
- 2017: Engagement with tobacco industry stakeholders
- 2018: New RFI, focusing on low-cost solutions
- 2019: RFP tender issued, Award, Go-live
## REQUIREMENTS AS SET BY REVENUE SERVICE SII

<table>
<thead>
<tr>
<th></th>
<th>Domestic production</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unique Identifier</td>
<td>2D barcode printed directly on the pack</td>
<td>2D barcode printed on tax stamp</td>
</tr>
<tr>
<td>Security features</td>
<td>Security ink used for printing 2D barcode, with covert and forensic authentication elements</td>
<td>Various authentication elements carried by tax stamp, including overt, covert, and forensic</td>
</tr>
<tr>
<td>Production monitoring</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Inspection</td>
<td>Mobile wireless device performing authentication of security features, scanning of UI, decoding, retrieval of traceability information</td>
<td></td>
</tr>
<tr>
<td>Consumer engagement</td>
<td>Free smartphone app allowing consumers to scan and verify compliance</td>
<td></td>
</tr>
</tbody>
</table>
DIRECT MARKING: HOW IT WORKS

- Automatic ejection and time alerts in case of non-compliance
- Real-time remote monitoring
CONSUMER ENGAGEMENT
CURRENT STATUS

- System went live on March 18th 2019 on all 3 production plants, plus imports
- 2 unknown cigarette importers showed up, and registered to the program
- 150 inspector devices delivered to SII and customs
- Expected $100M increase in yearly revenue and decrease of the illegal market
SYSTEM GOVERNANCE

CHILE SII
- Generate Us
- Security Features
- Printing / Affixing
- Reporting
- Data Management
- Monitoring & Inspection

- All tasks except application of physical tax stamp are under responsibility of government agency

COMPARISON WITH EU TPD
- Generate Us
- Security Features
- Printing / Affixing
- Reporting
- Data Management
- Monitoring & Inspection

- Virtually all tasks delegated to the tobacco industry

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Opportunities

Overt features for domestically produced packs that are easier for consumers to authenticate (tax stamp)
Thank you for your attention